

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF ROCKFORD	County KENT
Audit Date 6/30/05	Opinion Date 7/28/05	Date Accountant Report Submitted to State: 11/2/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

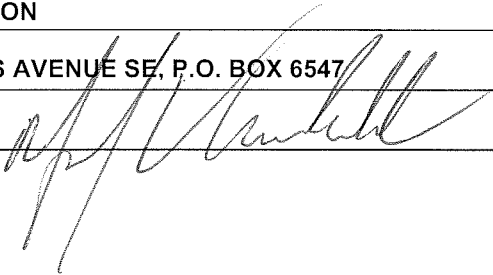
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

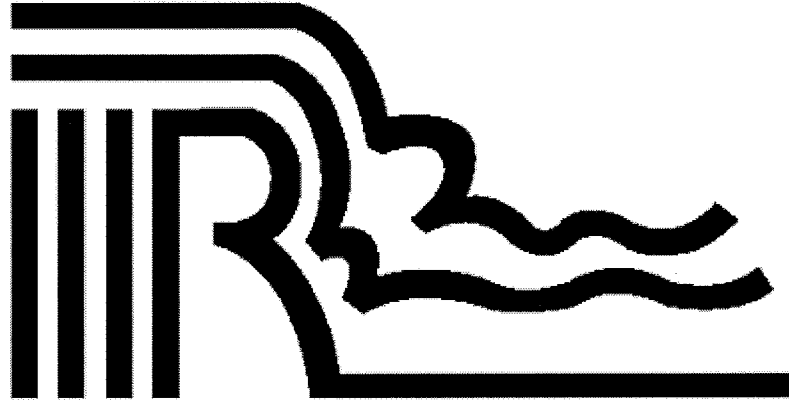
You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) REHMANN ROBSON			
Street Address 2330 EAST PARIS AVENUE SE, P.O. BOX 6547		City GRAND RAPIDS	State MI
Accountant Signature 		ZIP 49516-6547	
		Date 11/2/05	



CITY OF ROCKFORD
ROCKFORD, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

CITY OF ROCKFORD

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CITY OF ROCKFORD
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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

July 28, 2005

Honorable Mayor and
Members of the City Council
City of Rockford, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rockford, Michigan (the "City"), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Rockford, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the City of Rockford, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2005 on our consideration of the City of Rockford's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockford's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Rockford's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The continuing disclosure section has not been subjected to the auditing procedures applied in the audit of basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in cursive script, reading "Lehmann Lohman". The signature is written in dark ink and is centered on the page.

Management's Discussion and Analysis

As management of the City of Rockford, we offer readers of the City of Rockford's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- Rockford has taken great strides to beautify the area through improvements of Peppler Park, Rouge River Nature Trail, and Garden Club Park Improvements.
- The City's commitment to public safety was supported by over 50% of governmental expenditures.
- The City is working toward building a new Waste Water Treatment Plant with other members of the North Kent Sewer Authority. Final cost sharing formulas were approved in October 2005.
- Over \$69,000 of revenue earned from Redstone Group Heritage Park LLC and Highlands V through special assessment fees for water towers.
- Continued strong fund balance position due to tight fiscal budgeting policies.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Rockford's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Rockford that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, police and fire services, public works including major and local street maintenance and recreation and cultural activities. The business-type activities of the City include sewer and water services.

The government-wide financial statements include not only the City of Rockford itself (known as the *primary government*), but also a legally separate Downtown Development Authority and Economic Development Corporation for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 12-14 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Rockford, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and capital projects funds, each of which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary funds. The City of Rockford maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Rockford uses enterprise funds to account for its sewer and water operations.

City of Rockford Net Assets

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$2,447,825	\$2,583,791	\$ 2,682,627	\$ 2,428,127	\$ 5,130,452	\$ 5,011,918
Capital assets	3,006,957	2,843,048	7,428,421	7,913,553	10,435,378	10,756,601
Total assets	5,454,782	5,426,839	10,111,048	10,341,680	15,565,830	15,768,519
Long-term liabilities outstanding	1,105,300	1,181,769	4,453,386	4,838,386	5,558,686	6,020,155
Other liabilities	57,384	184,840	47,159	146,358	104,543	331,198
Total liabilities	1,162,684	1,366,609	4,500,545	4,984,744	5,663,229	6,351,353
Net assets:						
Invested in capital assets, net						
of related debt	2,091,197	1,661,279	2,975,035	3,075,167	5,066,232	4,736,446
Restricted	1,354,693	733,448	-	-	1,354,693	733,448
Unrestricted	846,208	1,665,503	2,635,468	2,281,769	3,481,676	3,947,272
Total net assets	<u>\$4,292,098</u>	<u>\$4,060,230</u>	<u>\$ 5,610,503</u>	<u>\$ 5,356,936</u>	<u>\$ 9,902,601</u>	<u>\$ 9,417,166</u>

Net assets of the City increased by \$485,435 with both the governmental and business-type activities showing additions to prior balances. The business-type activities increase in net assets of \$253,567 was primarily the result of operating revenues over expenditures. The governmental activities increase in net assets of \$231,868 is the result of estimated useful lives utilized in calculating depreciation and the relationship of expenditures to governmental activities revenues.

City of Rockford Changes in Net Assets

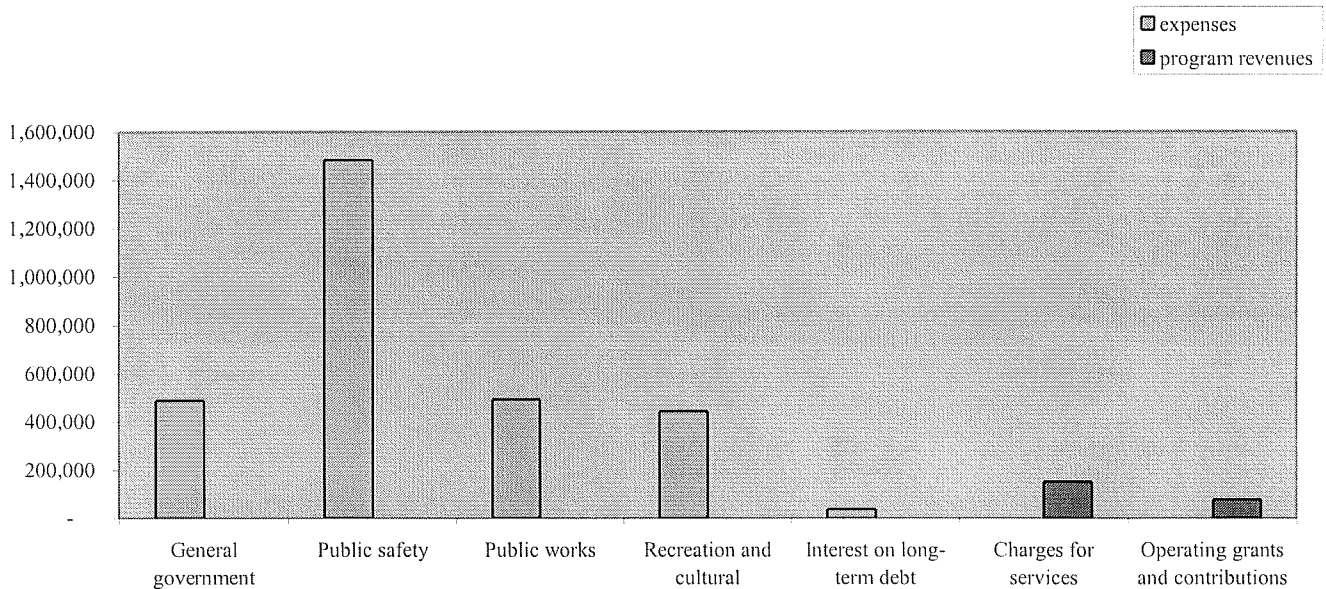
	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenue:						
Program revenue:						
Charges for services	\$ 150,896	\$ 209,708	\$2,604,886	\$2,357,567	\$2,755,782	\$2,567,275
Operating grants and contributions	77,697	94,088	-	-	77,697	94,088
General revenue:	228,593	303,796	2,604,886	2,357,567	2,833,479	2,661,363
Property taxes	1,999,798	1,923,290	-	-	1,999,798	1,923,290
Other governmental sources	684,301	698,717	-	-	684,301	698,717
Other	267,158	130,421	25,602	38,397	292,760	168,818
Total revenue	3,179,850	3,056,224	2,630,488	2,395,964	5,810,338	5,452,188
Expenses:						
General government	488,211	547,640	-	-	488,211	547,640
Public safety	1,484,005	1,777,338	-	-	1,484,005	1,777,338
Public works	494,522	432,677	-	-	494,522	432,677
Recreation and cultural	444,042	200,750	-	-	444,042	200,750
Interest on long-term debt	37,202	3,276	-	-	37,202	3,276
Sewer	-	-	1,393,476	1,417,743	1,393,476	1,417,743
Water	-	-	983,445	832,155	983,445	832,155
Total expenses	2,947,982	2,961,681	2,376,921	2,249,898	5,324,903	5,211,579

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Increase (decrease) in net assets before special items and transfers	\$ 231,868	\$ 94,543	\$ 253,567	\$ 146,066	\$ 485,435	\$ 240,609
Transfers	-	-	-	-	-	-
Special items	-	-	-	100,275	-	100,275
Increase in net assets	231,868	94,543	253,567	246,341	485,435	340,884
Net assets - beginning of year	4,060,230	3,965,687	5,356,936	5,110,595	9,417,166	9,076,282
Net assets - end of year	<u>\$4,292,098</u>	<u>\$4,060,230</u>	<u>\$5,610,503</u>	<u>\$5,356,936</u>	<u>\$9,902,601</u>	<u>\$9,417,166</u>

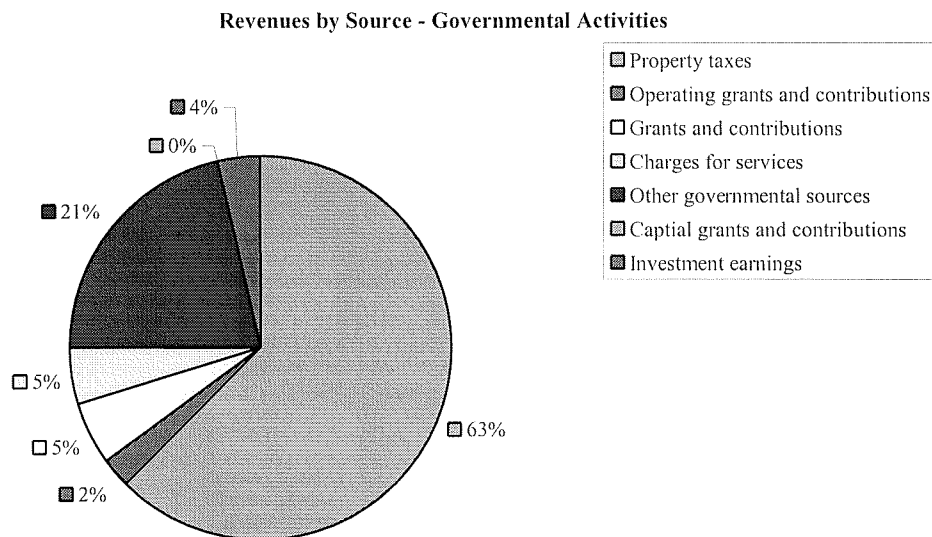
Governmental activities

During the year the City continued its emphasis in public safety by investing \$1,484,005 or 50% of governmental activities expenses. Public works, which includes major and local street maintenance was \$494,522 or 17% of governmental activities expenses while general government, recreation and cultural and interest on long-term debt made up the remaining 33% of governmental activities expenses.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Business-type activities. Business-type activities increased the City's net assets by \$253,567, accounting for 52 percent of the total growth in the government's net assets for the current year. Key elements of this increase are as follows:

- Charges for services for business-type activities increased by 10.5 percent, or roughly \$247,319 compared to the prior year.
- Expenses increased 5.6%, or approximately \$127,023, primarily because of increases in professional and contractual services as well as materials and supplies expense in the water fund.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,406,727, a decrease of \$16,735 in comparison with the prior year. Approximately 83 percent of this total amount (\$1,986,366) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to generate income for cemetery and library purposes (\$401,956), and 2) for fuel inventory replacement (\$18,405).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,033,629, while total fund balance was \$1,052,034. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 44 percent of total general fund expenditures.

The fund balance of the City's general fund increased by \$41,244 during the current fiscal year. This is primarily attributable to growth in property tax.

The major and local street funds have total fund balances of \$262,276, which increased by \$22,897 during the year.

The budget stabilization fund has a total fund balance of \$116,947, which was consistent with the June 30, 2004 balance. The balance of this fund is restricted for use as defined by state law.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water funds at the end of the year amounted to \$1,147,159 and \$1,488,309, respectively. The sewer fund had an increase in net assets for the year of \$199,443, whereas the water fund had an increase of \$54,124. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final amended budgets for expenditures were relatively minor for the year.

During the year, general fund revenues were more than budgetary estimates and expenditures were less than budgetary estimates, resulting in an actual increase in fund balance that exceeded the final amended budget amount by \$101,244.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounted to \$10,435,378 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and infrastructure which has only been added this year. The total decrease in the City's investment in capital assets for the current fiscal year was 3.0 percent.

Major capital asset events during the current fiscal year included the following:

- Improvements to Peppler Park
- Improvements to Rouge River Nature Trail
- Construction of water tank
- Sale of former water plant

City of Rockford Capital Assets
(net of depreciation)

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$1,100,056	\$1,100,056	\$ -	\$ -	\$ 1,100,056	\$ 1,100,056
Infrastructure	243,197	196,324	-	-	243,197	196,324
Buildings and system improvements	1,014,917	813,065	7,428,421	7,913,553	8,443,338	8,726,618
Vehicles and equipment	648,787	733,603	-	-	648,787	733,603
Total	<u>\$3,006,957</u>	<u>\$2,843,048</u>	<u>\$7,428,421</u>	<u>\$7,913,553</u>	<u>\$10,435,378</u>	<u>\$10,756,601</u>

Additional information on the City of Rockford capital assets can be found in Note 3 on pages 32-33 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$5,580,300. Of this amount, \$4,475,000 was debt of business activities and \$1,105,300 was debt of governmental activities.

General Obligation and Revenue Bonds

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Accrued employee benefits	\$ 189,540	\$ 178,859	\$ -	\$ -	\$ 189,540	\$ 178,859
Notes	175,760	207,910	-	-	175,760	207,910
Bonds	740,000	795,000	4,475,000	4,838,386	5,215,000	5,633,386
Total	<u>\$1,105,300</u>	<u>\$1,181,769</u>	<u>\$4,475,000</u>	<u>\$4,838,386</u>	<u>\$5,580,300</u>	<u>\$6,020,155</u>

The City's total debt decreased by \$461,469 (7.7 percent) during the current fiscal year.

The City is currently not rated for general obligation bond issuance.

State statutes limit the amount of general obligation debt a governmental entity may issue up to 10 percent of its total assessed valuation. The current debt limitation for the City is \$19,771,320, which is significantly in excess of the City's outstanding general obligation debt of \$915,760.

Additional information on the City's long-term debt can be found in Note 7 on pages 35-36 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2005-2006 fiscal year:

- Increased employee wages cost of 3%.
- Increased health insurance cost of 8%.
- Increased property tax revenue of 5%.
- No change in state revenue sharing payments due to state budget issues.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 7 South Monroe St., Rockford, Michigan 49341.

CITY OF ROCKFORD

STATEMENT OF NET ASSETS

JUNE 30, 2005

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	DOWNTOWN DEVELOPMENT AUTHORITY	ECONOMIC DEVELOPMENT CORPORATION
ASSETS					
Cash and temporary investments	\$ 2,128,217	\$ 2,099,328	\$ 4,227,545	\$ 37,848	\$ 2,672
Receivables					
Accounts	46,692	410,797	457,489	745	-
Special assessments	-	152,771	152,771	-	-
Interest	26,680	19,731	46,411	84	6
Due from other governmental units	227,831	-	227,831	-	-
Inventory	18,405	-	18,405	-	-
Land	1,100,056	-	1,100,056	-	-
Property, plant and equipment, net of accumulated depreciation	1,906,901	7,428,421	9,335,322	1,276,102	-
TOTAL ASSETS	5,454,782	10,111,048	15,565,830	1,314,779	2,678
LIABILITIES					
Accounts payable	12,756	42	12,798	-	-
Other accrued liabilities	27,872	8,925	36,797	-	-
Deposits	470	-	470	-	-
Miscellaneous liabilities	16,286	38,192	54,478	13,433	-
Noncurrent liabilities					
Unamortized discount on revenue bonds	-	(21,614)	(21,614)	-	-
Due within one year	93,183	405,000	498,183	60,000	-
Due in more than one year	1,012,117	4,070,000	5,082,117	560,000	-
TOTAL LIABILITIES	1,162,684	4,500,545	5,663,229	633,433	-
NET ASSETS					
Invested in capital assets, net of related debt	2,091,197	2,975,035	5,066,232	656,102	-
Restricted for					
Major streets	209,182	-	209,182	-	-
Local streets	53,094	-	53,094	-	-
Budget stabilization	116,947	-	116,947	-	-
Library operating	60,049	-	60,049	-	-
Capital projects	513,465	-	513,465	-	-
Perpetual care	259,478	-	259,478	-	-
Library endowment	142,478	-	142,478	-	-
Unrestricted	846,208	2,635,468	3,481,676	25,244	2,678
TOTAL NET ASSETS	\$ 4,292,098	\$ 5,610,503	\$ 9,902,601	\$ 681,346	\$ 2,678

The accompanying notes are an integral part of these financial statements.

CITY OF ROCKFORD

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
PRIMARY GOVERNMENT					
Governmental activities					
General government	\$ 503,212	\$ 23,815	\$ -	\$ -	\$ (479,397)
Public safety	1,484,005	16,155	60,332	-	(1,407,518)
Public works	494,522	103,676	8,810	-	(382,036)
Recreation and cultural	444,042	7,250	8,555	-	(428,237)
Interest on long-term debt	37,202	-	-	-	(37,202)
Total governmental activities	2,962,983	150,896	77,697	-	(2,734,390)
Business-type activities					
Sewer	1,393,476	1,569,738	-	-	176,262
Water	983,445	1,035,148	-	-	51,703
Total business-type activities	2,376,921	2,604,886	-	-	227,965
TOTAL PRIMARY GOVERNMENT	\$ 5,339,904	\$ 2,755,782	\$ 77,697	\$ -	\$ (2,506,425)
COMPONENT UNITS					
Downtown Development Authority	\$ 102,191	\$ -	\$ -	\$ -	(102,191)
Economic Development Corporation	3,476	1,000	-	-	(2,476)
TOTAL COMPONENT UNITS	\$ 105,667	\$ 1,000	\$ -	\$ -	\$ (104,667)

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF ROCKFORD

STATEMENT OF ACTIVITIES (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	DOWNTOWN DEVELOPMENT AUTHORITY	ECONOMIC DEVELOPMENT CORPORATION
CHANGES IN NET ASSETS					
Net (expense) revenue	\$ (2,734,390)	\$ 227,965	\$ (2,506,425)	\$ (102,191)	\$ (2,476)
General revenues:					
Property taxes	1,999,798	-	1,999,798	117,941	-
Other governmental sources	684,301	-	684,301	15,000	-
Grants and contributions not restricted to specific programs	168,411	-	168,411	-	-
Unrestricted investment earnings	110,959	50,025	160,984	1,176	76
Gain (loss) on sale of capital assets	2,789	(34,197)	(31,408)	-	-
Miscellaneous revenues	-	9,774	9,774	-	-
TOTAL GENERAL REVENUES	2,966,258	25,602	2,991,860	134,117	76
Change in net assets	231,868	253,567	485,435	31,926	(2,400)
NET ASSETS, BEGINNING OF YEAR	4,060,230	5,356,936	9,417,166	649,420	5,078
NET ASSETS, END OF YEAR	\$ 4,292,098	\$ 5,610,503	\$ 9,902,601	\$ 681,346	\$ 2,678

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF ROCKFORD

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2005

<u>ASSETS</u>	GENERAL FUND	CAPITAL PROJECTS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash and temporary investments	\$ 931,831	\$ 356,234	\$ 840,152	\$ 2,128,217
Receivables:				
Accounts	46,692	-	-	46,692
Interest	18,345	6,436	1,899	26,680
Due from other governmental units	76,964	107,067	43,800	227,831
Inventory	18,405	-	-	18,405
<u>TOTAL ASSETS</u>	<u>\$ 1,092,237</u>	<u>\$ 469,737</u>	<u>\$ 885,851</u>	<u>\$ 2,447,825</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES				
Accounts payable	\$ 12,756	\$ -	\$ -	\$ 12,756
Other accrued liabilities	26,977	-	895	27,872
Deposits	470	-	-	470
<u>TOTAL LIABILITIES</u>	<u>40,203</u>	<u>-</u>	<u>895</u>	<u>41,098</u>
FUND BALANCE				
Reserved for inventory	18,405	-	-	18,405
Reserved for perpetual care	-	-	259,478	259,478
Reserved for library endowment	-	-	142,478	142,478
Unreserved- undesignated reported in special revenue funds	-	-	439,272	439,272
Unreserved- undesignated reported in capital projects funds	-	469,737	43,728	513,465
Unreserved- undesignated	1,033,629	-	-	1,033,629
<u>TOTAL FUND BALANCES</u>	<u>1,052,034</u>	<u>469,737</u>	<u>884,956</u>	<u>2,406,727</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 1,092,237</u>	<u>\$ 469,737</u>	<u>\$ 885,851</u>	<u>\$ 2,447,825</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ROCKFORD

***RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO THE NET ASSETS OF GOVERNMENTAL
ACTIVITIES ON THE STATEMENT OF NET ASSETS***

JUNE 30, 2005

Fund balances- total governmental funds	\$ 2,406,727
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds.

Add- land	1,100,056
Add- capital assets (net of accumulated depreciation)	1,906,901

Certain liabilities, such as bond payable, are not due and payable in the
current period and therefore are not reported in the funds.

Deduct- bonds payable	(915,760)
Deduct- accrued interest	(16,286)
Deduct - compensated absences	<u>(189,540)</u>

Net assets of governmental activities	<u><u>\$ 4,292,098</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF ROCKFORD

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL FUND	CAPITAL PROJECTS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 1,999,798	\$ -	\$ -	\$ 1,999,798
Licenses and permits	57,419	-	-	57,419
Intergovernmental revenue:		-		
Local	55,500	-	284,993	340,493
State	412,695	107,067	-	519,762
Charges for services	31,365	-	-	31,365
Fines and forfeitures	6,896	-	-	6,896
Interest and rentals	89,662	13,428	16,789	119,879
Other	51,458	43,000	24,781	119,239
TOTAL REVENUES	2,704,793	163,495	326,563	3,194,851
EXPENDITURES				
Current:				
General government	443,799	-	-	443,799
Public safety	1,351,387	-	-	1,351,387
Public works	378,761	-	264,005	642,766
Recreation and cultural	146,328	-	34,759	181,087
Other expenditures	36,838	-	-	36,838
Capital outlay	-	405,507	17,615	423,122
Debt service:				
Principal retirement	-	32,150	55,000	87,150
Interest and fiscal charges	-	6,378	39,059	45,437
TOTAL EXPENDITURES	2,357,113	444,035	410,438	3,211,586
REVENUES OVER (UNDER) EXPENDITURES	347,680	(280,540)	(83,875)	(16,735)
OTHER FINANCING SOURCES (USES)				
Transfers in	6,547	188,000	134,983	329,530
Transfers (out)	(312,983)	-	(16,547)	(329,530)
TOTAL OTHER FINANCING SOURCES (USES)	(306,436)	188,000	118,436	-
NET CHANGE IN FUND BALANCES	41,244	(92,540)	34,561	(16,735)
FUND BALANCES, BEGINNING OF YEAR	1,010,790	562,277	850,395	2,423,462
FUND BALANCES, END OF YEAR	\$ 1,052,034	\$ 469,737	\$ 884,956	\$ 2,406,727

The accompanying notes are an integral part of these financial statements.

CITY OF ROCKFORD

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ (16,735)

Amounts reported for *governmental activities* in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add - capital outlay	305,255
Deduct - depreciation expense	(141,346)

Bond proceeds provide current financial resources to governmental funds in the period
issued, but issuing bonds increases long-term liabilities in the statement of net assets.
Repayment of bond principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term debt	87,150
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Some expenses reported in the statement of activities do not require the use of current
financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in interest expense for accrued interest	8,225
Deduct - increase in the accrual for compensated absences	<u>(10,681)</u>

Change in net assets of governmental activities	<u>\$ 231,868</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF ROCKFORD

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 2,009,485	\$ 2,009,485	\$ 1,999,798	\$ (9,687)
Licenses and permits	59,000	59,000	57,419	(1,581)
Intergovernmental revenue:				
Local	55,500	55,500	55,500	0
State	408,321	408,321	412,695	4,374
Charges for services	19,550	19,550	31,365	11,815
Fines and forfeitures	7,000	7,000	6,896	(104)
Interest and rentals	64,010	64,010	89,662	25,652
Other	40,250	40,250	51,458	11,208
TOTAL REVENUES	2,663,116	2,663,116	2,704,793	41,677
EXPENDITURES				
GENERAL GOVERNMENT				
City Council	29,855	29,855	25,911	3,944
Elections	5,965	5,965	7,207	(1,242)
Assessor	64,037	66,037	64,998	1,039
City Clerk	266,159	266,159	261,262	4,897
Cemetery	75,440	81,440	77,461	3,979
Planning Commission	8,400	8,400	6,960	1,440
TOTAL GENERAL GOVERNMENT	449,856	457,856	443,799	14,057
PUBLIC SAFETY				
Police	970,914	977,914	976,080	1,834
Fire	391,672	391,672	375,307	16,365
TOTAL PUBLIC SAFETY	1,362,586	1,369,586	1,351,387	18,199
TOTAL PUBLIC WORKS	388,100	388,100	378,761	9,339
TOTAL RECREATION AND CULTURAL	128,150	153,150	146,328	6,822
TOTAL OTHER EXPENDITURES	43,500	43,500	36,838	6,662
TOTAL EXPENDITURES	2,372,192	2,412,192	2,357,113	55,079
REVENUE OVER (UNDER) EXPENDITURES	290,924	250,924	347,680	96,756
OTHER FINANCING SOURCES (USES)				
Transfers in	2,500	2,500	6,547	4,047
Transfers (out)	(293,424)	(313,424)	(312,983)	441
TOTAL OTHER FINANCING USES	(290,924)	(310,924)	(306,436)	4,488
NET CHANGE IN FUND BALANCES	-	(60,000)	41,244	101,244
FUND BALANCES, BEGINNING OF YEAR	1,010,790	1,010,790	1,010,790	-
FUND BALANCES, END OF YEAR	\$ 1,010,790	\$ 950,790	\$ 1,052,034	\$ 101,244

The accompanying notes are an integral part of these financial statements.

CITY OF ROCKFORD

**STATEMENT OF NET ASSETS
ENTERPRISE FUNDS**

JUNE 30, 2005

	SEWER	WATER	TOTALS
ASSETS			
CURRENT ASSETS			
Cash and temporary investments	\$ 922,681	\$ 1,176,647	\$ 2,099,328
Receivables:			
Accounts	224,824	185,973	410,797
Special assessments	-	152,771	152,771
Interest	9,581	10,150	19,731
TOTAL CURRENT ASSETS	1,157,086	1,525,541	2,682,627
Property, plant and equipment, net of accumulated depreciation	2,152,956	5,275,465	7,428,421
TOTAL ASSETS	3,310,042	6,801,006	10,111,048
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	-	42	42
Other accrued liabilities	9,927	37,190	47,117
Current maturities of long-term debt	145,000	260,000	405,000
TOTAL CURRENT LIABILITIES	154,927	297,232	452,159
LONG-TERM LIABILITIES			
Revenue bonds payable, net of current maturities	1,150,000	2,920,000	4,070,000
Unamortized discount on revenue bonds	(17,379)	(4,235)	(21,614)
TOTAL LONG-TERM LIABILITIES	1,132,621	2,915,765	4,048,386
TOTAL LIABILITIES	1,287,548	3,212,997	4,500,545
NET ASSETS			
Invested in capital assets, net of related debt	875,335	2,099,700	2,975,035
Unrestricted	1,147,159	1,488,309	2,635,468
TOTAL NET ASSETS	\$ 2,022,494	\$ 3,588,009	\$ 5,610,503

The accompanying notes are an integral part of these financial statements.

CITY OF ROCKFORD

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
ENTERPRISE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	SEWER	WATER	TOTAL
OPERATING REVENUES			
Charges for services	\$ 1,569,738	\$ 1,035,148	\$ 2,604,886
TOTAL OPERATING REVENUES	1,569,738	1,035,148	2,604,886
OPERATING EXPENSES			
Capital outlay	34,324	14,618	48,942
Personnel services	203,609	329,871	533,480
Professional and contractual services	931,462	134,166	1,065,628
Materials and supplies	11,012	173,121	184,133
Utilities	20,796	76,540	97,336
Repairs and maintenance	12,258	154	12,412
Insurance and bonds	11,495	6,644	18,139
Equipment rental	8,982	-	8,982
Depreciation	116,304	116,469	232,773
Miscellaneous	1,447	7,991	9,438
TOTAL OPERATING EXPENSES	1,351,689	859,574	2,211,263
OPERATING INCOME (LOSS)	218,049	175,574	393,623
NONOPERATING REVENUES (EXPENSES)			
Interest income	20,481	29,544	50,025
Loss on sale of capital assets	-	(166,272)	(166,272)
Miscellaneous	2,700	139,149	141,849
Interest expense	(41,787)	(123,871)	(165,658)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(18,606)	(121,450)	(140,056)
CHANGE IN NET ASSETS	199,443	54,124	253,567
NET ASSETS, BEGINNING OF YEAR	1,823,051	3,533,885	5,356,936
NET ASSETS, END OF YEAR	\$ 2,022,494	\$ 3,588,009	\$ 5,610,503

The accompanying notes are an integral part of these financial statements.

CITY OF ROCKFORD
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	SEWER	WATER	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 1,544,936	\$ 996,027	\$ 2,540,963
Cash payments to suppliers for goods and services	(1,040,318)	(503,891)	(1,544,209)
Cash payments to employees for services	(203,609)	(329,871)	(533,480)
NET CASH PROVIDED BY OPERATING ACTIVITIES	301,009	162,265	463,274
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Miscellaneous non-operating revenue	2,700	86,897	89,597
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisitions of capital assets	(137,395)	(31,318)	(168,713)
Cash received on special assessments	-	16,099	16,099
Issuance of special assessments receivable	-	(32,198)	(32,198)
Proceeds from the sale of capital assets	-	254,800	254,800
Sale of investments	300,000	300,000	600,000
Principal paid on long-term debt	(135,000)	(250,000)	(385,000)
Interest and fiscal charges	(41,787)	(123,871)	(165,658)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(14,182)	133,512	119,330
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	13,910	22,404	36,314
NET INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS	303,437	405,078	708,515
CASH AND TEMPORARY INVESTMENTS, BEGINNING OF YEAR	619,244	771,569	1,390,813
CASH AND TEMPORARY INVESTMENTS, END OF YEAR	\$ 922,681	\$ 1,176,647	\$ 2,099,328
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 218,049	\$ 175,574	\$ 393,623
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	116,304	116,469	232,773
Changes in assets and liabilities which provided (used) cash:			
Accounts receivable	(24,802)	(39,121)	(63,923)
Accounts payable	(4,750)	(81,851)	(86,601)
Other accrued liabilities	(3,792)	(8,806)	(12,598)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 301,009	\$ 162,265	\$ 463,274

The accompanying notes are an integral part of these financial statements.

CITY OF ROCKFORD
STATEMENT OF NET ASSETS
AGENCY FUNDS

JUNE 30, 2005

	<u>AGENCY FUNDS</u>
ASSETS	
Cash and temporary investments	\$ 118,056
Accounts receivable interest	<u>278</u>
TOTAL CURRENT ASSETS	<u><u>\$ 118,334</u></u>
LIABILITIES	
Payroll taxes and withholdings	\$ 57,373
Due to other governmental units	12,435
Due to other entities	<u>48,526</u>
TOTAL CURRENT LIABILITIES	<u><u>\$ 118,334</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF ROCKFORD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Rockford (the "City") was incorporated June 17, 1935, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles. The following is a summary of the more significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

Discretely Presented Component Units

Downtown Development Authority – The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Economic Development Corporation – The members of the governing board of the Economic Development Corporation are appointed by the City Council. The budgets and expenditures of the Economic Development Corporation must be approved by the City Council. The City also has the ability to significantly influence operations of the Economic Development Corporation.

Complete financial statements for the component units are not separately prepared.

Joint Venture

The City of Rockford is a participant in the North Kent Sewer Authority ("Authority") (a joint venture as defined by GASB Statement No. 14). The purpose of the Authority is to construct and maintain sewage transportation infrastructure. The City utilizes the Authority to transport City of Rockford sewage to the City of Grand Rapids Sanitary Sewer System for treatment and disposal.

The City pays the Authority based on its share of sewage flow through the system to cover debt service, maintenance and administration of the Authority. The Authority was created and has outstanding insured municipal bonds of \$16,510,000. The City has pledged its limited faith and credit for the bonds based on City sewage flow through the system. Financial statements can be obtained by contacting the North Kent Sewer Authority, P.O. Box 561, Rockford, MI 49341-0561.

CITY OF ROCKFORD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the delinquent real property taxes are paid by the City to other units of government and the County is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and accrued employee benefit expenditures are recorded only when payment is due.

CITY OF ROCKFORD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Projects Fund* is utilized to account for the accumulation of resources and for construction of public facilities.

The City reports the following major proprietary funds:

Sewer Fund – This fund is used to account for the cost of collecting and treating wastewater. Revenues are chiefly from service charges to customers. These revenues are also used to pay principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system. Treatment and transportation facilities are provided by the City of Grand Rapids and the North Kent sewer authority respectively.

Water Fund – The cost of providing water services to City residents is accounted for by this fund. Revenues are primarily from charges to customers for water usage. These revenues are used to pay operating costs and principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for revenue from specific revenue sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Capital Projects Fund* accounts for the accumulation and disbursement of resources for the construction of City capital projects.

The *Permanent Funds* are used to record the activity of legal trusts for which the interest on the corpus provides funds for City operations.

The *Agency Funds* are used to account for assets held on behalf of outside parties, including other governments.

CITY OF ROCKFORD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency Funds.
5. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2005. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
6. Budgets for expenditures are adopted at the functional level.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

CITY OF ROCKFORD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Inventory

Inventory is valued at the lower of cost or market, on the first-in first-out basis.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. The capitalization threshold is \$5,000. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added beginning in 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	25
Buildings	25 - 30
Office furniture and equipment	5 - 20
Vehicles	3 - 10
Public domain infrastructure	50
System infrastructure	30

CITY OF ROCKFORD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1st. Taxes are levied July 1 and are due without penalty on or before August 10. These summer tax bills include the City's own property taxes and taxes billed on behalf of other districts within the City limits. Real property taxes not collected are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accrued Vacation and Sick Leave

Under terms of union contracts and City policies, employees are granted sick leave in varying amounts. At the end of each fiscal year, each employee shall be paid for 50% of all unused sick leave above the amount allowed to be accumulated by the employee, (72 days for all departments except for police, whose limit is 90 days). Upon retirement or death, payments will be made for 50% of accumulated sick leave. Vacation time must be utilized by each employee's anniversary date and may not be carried over.

Accumulated unpaid sick leave is recorded on the statement of net assets. Current portions of unpaid sick leave are considered immaterial.

CITY OF ROCKFORD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the City.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2005, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

2. CASH EQUIVALENTS AND DEPOSITS

The captions on the government-wide and fund statements relating to cash and cash equivalents and deposits are as follows:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$4,227,545	\$40,520	\$118,056	\$4,386,121

Cash equivalents and deposits consist of the following at June 30, 2005:

Cash equivalents	\$ 798,121
Certificates of deposit	2,788,000
Investments	800,000
Total deposits	<u>\$4,386,121</u>

These deposits are in three (3) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at cost. Interest is recorded when earned.

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$3,032,564 of the City's bank balance of \$3,676,535 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF ROCKFORD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

	Maturity	Fair Value	Rating
Federal Home Loan Bank – 11/17/08	Callable 8/05, matures 11/08	\$500,000	Aaa, AAA
Federal Home Loan Bank – 2/11/10	Callable 8/05, matures 2/10	300,000	Aaa, AAA

The above investments do not include certificates of deposit which are classified as deposits for financial statement purposes as their original maturity date is less than three months.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified under “statutory authority” below. The City’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City’s specific financial institutions, qualified mutual funds, qualified external investment pools as identified in “statutory authority” below. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year-end.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The City’s investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

Statutory Authority

State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

CITY OF ROCKFORD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

3. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2005, are as follows:

	Balance July 1, 2004	Additions	Dispositions	Balance June 30, 2005
Governmental activities				
Capital assets, not being depreciated:				
Land	\$1,100,056	\$ -	\$ -	\$1,100,056
Capital assets, being depreciated:				
Infrastructure	201,358	48,655	-	250,013
Buildings and improvements	1,299,544	247,200	-	1,546,744
Vehicles and equipment	1,244,800	9,400	-	1,254,200
	2,745,702	305,255	-	3,050,957
Less accumulated depreciation for:				
Infrastructure	5,034	1,782	-	6,816
Buildings	486,479	45,348	-	531,827
Vehicles and equipment	511,197	94,216	-	605,413
Total accumulated depreciation	1,002,710	141,346	-	1,144,056
Net capital assets, being depreciated	1,742,992	163,909	-	1,906,901
Net capital assets - governmental activities	\$2,843,048	\$ 163,909	\$ -	\$3,006,957
Business-type activities				
Capital assets being depreciated:				
Water system	\$7,320,842	\$ 31,318	\$(844,859)	\$6,507,301
Sewer system	3,880,437	137,395	-	4,017,832
Accumulated depreciation	(3,287,726)	(232,773)	423,787	(3,096,712)
Net capital assets - business-type activities	\$7,913,553	\$ (64,060)	\$ (421,072)	\$7,428,421

CITY OF ROCKFORD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2005</u>
Component unit				
Buildings	\$1,580,836	\$ -	\$ -	\$1,580,836
Accumulated depreciation	(273,117)	(31,617)	-	(304,734)
Net capital assets – component unit	<u>\$1,307,719</u>	<u>\$(31,617)</u>	<u>\$ -</u>	<u>\$1,276,102</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 22,615
Public safety	73,500
Public works	24,029
Recreation and cultural	21,202
Total depreciation expense – governmental activities	<u>\$141,346</u>
Business-type activities:	
Sewer	\$116,304
Water	116,469
Total depreciation expense – business type activities	<u>\$232,773</u>

4. INTERFUND TRANSFERS

The composition of transfers for the year ended June 30, 2005, is as follows:

	<u>Transfers To</u>	<u>Transfers From</u>
Governmental Funds:		
General Fund	\$ 6,547	\$312,983
Capital Projects	188,000	-
Nonmajor	134,983	16,547
Total	<u>\$329,530</u>	<u>\$329,530</u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

5. DEFINED BENEFIT PENSION PLAN

Municipal Employees Retirement System of Michigan

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

CITY OF ROCKFORD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

The City is required to contribute at an actuarially determined rate; the current rate is 5.7% of annual covered payroll. Participating employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

For the year ended June 30, 2005 the City's annual pension cost for MERS of \$156,115 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment of 20% of the difference between assumed earnings and market value (5 year seniority) to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$145,447	100%	\$ -
2004	146,383	100%	-
2005	156,115	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$2,100,943	\$2,746,953	\$ 646,010	76%	\$1,499,124	43%
12/31/03	2,341,702	3,206,565	864,864	73%	1,572,480	55%
12/31/04	2,563,229	3,638,775	1,075,546	70%	1,654,686	65%

6. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All assets of the plan are held in trust for employees and the related assets and liabilities are not included in this report.

CITY OF ROCKFORD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

7. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2005:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Governmental activities					
5.05% Transportation Bonds, series 1999; payable in annual amounts of \$45,000 to \$90,000 through 2015	\$ 795,000	\$ -	\$55,000	\$ 740,000	\$ 60,000
3.19% Installment Note; payable in annual amounts of \$32,090 to \$36,486 through 2010	207,910	-	32,150	175,760	33,183
Accrued employee benefits	178,859	10,681	-	189,540	-
Total governmental activities	1,181,769	10,681	87,150	1,105,300	93,183
Business-type activities					
7.5% - 12% Water Construction Revenue Bonds, payable annually through 2006	90,000	-	45,000	45,000	45,000
5.25 - 7.0% Water Supply System Revenue Bonds 1997, payable in annual amounts of \$35,000 to \$75,000 through 2013	585,000	-	25,000	560,000	35,000
6% - 9.96% 1991 Water Supply System Revenue Bonds, payable in annual amounts of \$50,000 to \$60,000 through 2009	275,000	-	50,000	225,000	50,000
1999 2.5% MI Drinking Water Revolving Fund Loan, payable in annual amounts of \$110,000 to \$150,000 through 2018	1,935,000	-	110,000	1,825,000	110,000
2.0% - 3.625% Local Government Loan Program Revenue Refunding Bonds, Series 2002B; payable in annual amounts of \$115,000 to \$185,000 through 2013	1,430,000	-	135,000	1,295,000	145,000

CITY OF ROCKFORD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
4.0% - 4.050% Capital Improvement Bonds, Series 2003, payable in annual amounts of \$20,000 to \$40,000 through 2023	\$ 545,000	\$ -	\$ 20,000	\$ 525,000	\$ 20,000
Unamortized discounts	(21,614)	-	-	(21,614)	-
Total business-type activities	4,838,386	-	385,000	4,453,386	405,000
Component Unit					
5% - 5.25% Limited Tax Development Bonds, Series 1997, payable in annual amounts of \$60,000 to \$95,000 through 2013	675,000	-	55,000	620,000	60,000
Total long-term debt – reporting entity	\$6,695,155	\$10,681	\$527,150	\$6,178,686	\$558,183

The annual requirements, excluding accrued employee benefits and unamortized discounts, to maturity on the total long-term obligations outstanding at June 30, 2005 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 93,183	\$ 41,199	\$ 405,000	\$152,268	\$ 60,000	\$ 32,238
2007	94,250	37,102	410,000	136,949	65,000	29,237
2008	100,352	32,845	420,000	122,505	70,000	25,988
2009	106,488	28,299	430,000	107,186	75,000	22,312
2010	106,487	23,591	380,000	91,236	80,000	18,375
2011-2015	415,000	54,162	1,545,000	258,401	270,000	28,875
2016-2020	-	-	735,000	83,373	-	-
2021-2024	-	-	150,000	12,555	-	-
	\$915,760	\$217,198	\$4,475,000	\$964,473	\$620,000	\$157,025

Advance Refunding

During prior years, the City of Rockford issued \$1,680,000 of City of Rockford sewer revenue bonds to provide resources to purchase U.S. Government securities that were placed in an escrow fund for the purpose of generating resources for all future debt service payments on \$1,580,000 on refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The remaining balance of this debt is \$1,630,000.

CITY OF ROCKFORD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

8. LITIGATION

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

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CITY OF ROCKFORD

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2005

<u>ASSETS</u>	<u>SPECIAL REVENUE</u>			
	<u>MAJOR STREETS</u>	<u>LOCAL STREETS</u>	<u>BUDGET STABILIZATION</u>	<u>LIBRARY</u>
Cash and temporary investments	\$ 177,824	\$ 40,894	\$ 116,681	\$ 60,075
Interest receivable	400	90	266	137
<u>TOTAL ASSETS</u>	<u>\$ 209,524</u>	<u>\$ 53,484</u>	<u>\$ 116,947</u>	<u>\$ 60,212</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES				
Other accrued liabilities	\$ 342	\$ 390	\$ -	\$ 163
<u>TOTAL LIABILITIES</u>	<u>342</u>	<u>390</u>	<u>-</u>	<u>163</u>
 FUND BALANCES				
Unreserved - undesignated	209,182	53,094	116,947	60,049
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 209,524</u>	<u>\$ 53,484</u>	<u>\$ 116,947</u>	<u>\$ 60,212</u>

DEBT SERVICE		CAPITAL PROJECT		PERMANENT FUNDS		TOTALS
		LIBRARY	CEMETERY TRUST	LIBRARY ENDOWMENT		
\$	-	\$ 43,631	\$ 258,888	\$ 142,159	\$ 840,152	
	-	97	590	319	1,899	
\$	-	\$ 43,728	\$ 259,478	\$ 142,478	\$ 885,851	

\$ -	\$ -	\$ -	\$ -	\$ 895
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-	-	-	-	895
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-	43,728	259,478	142,478	884,956
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\$ -	\$ 43,728	\$ 259,478	\$ 142,478	\$ 885,851
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CITY OF ROCKFORD

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE			
	MAJOR STREETS	LOCAL STREETS	BUDGET STABILIZATION	LIBRARY
REVENUES				
Intergovernmental revenue:				
State	\$ 197,404	\$ 79,034	\$ -	\$ 8,555
Interest and rentals	2,598	866	2,197	1,218
Other	-	-	-	966
TOTAL REVENUES	200,002	79,900	2,197	10,739
EXPENDITURES				
Current:				
Public works	115,418	148,587	-	-
Recreation and cultural	-	-	-	31,520
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	115,418	148,587	-	31,520
REVENUES OVER (UNDER) EXPENDITURES	84,584	(68,687)	2,197	(20,781)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	17,000	-	23,924
Transfers (out)	(5,000)	(5,000)	(2,197)	-
TOTAL OTHER FINANCING SOURCES (USES)	(5,000)	12,000	(2,197)	23,924
NET CHANGE IN FUND BALANCES	79,584	(56,687)	-	3,143
FUND BALANCES, BEGINNING OF YEAR	129,598	109,781	116,947	56,906
FUND BALANCES, END OF YEAR	\$ 209,182	\$ 53,094	\$ 116,947	\$ 60,049

DEBT SERVICE	CAPITAL PROJECTS		PERMANENT FUNDS		TOTALS
	LIBRARY	CEMETERY TRUST	LIBRARY ENDOWMENT		
\$	-	\$	-	\$	284,993
	-	990	4,351	4,569	16,789
	-	-	23,815	-	24,781
	-	990	28,166	4,569	326,563
	-	-	-	-	264,005
	-	-	-	3,239	34,759
55,000	-	-	-	-	55,000
39,059	-	-	-	-	39,059
-	17,615	-	-	-	17,615
94,059	17,615	-	3,239		410,438
(94,059)	(16,625)	28,166	1,330		(83,875)
94,059	-	-	-		134,983
-	-	(4,350)	-		(16,547)
94,059	-	(4,350)	-		118,436
-	(16,625)	23,816	1,330		34,561
-	60,353	235,662	141,148		850,395
\$	-	\$	43,728	\$	259,478
				\$	142,478
				\$	884,956

CITY OF ROCKFORD

**MAJOR STREETS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Intergovernmental revenue:				
State	\$ 195,000	\$ 195,000	\$ 197,404	\$ 2,404
Interest and rentals	1,000	1,000	2,598	1,598
TOTAL REVENUES	196,000	196,000	200,002	4,002
EXPENDITURES				
Highways and Streets:				
Construction	47,000	47,000	30,994	16,006
Routine maintenance	53,770	53,770	41,025	12,745
Traffic control	9,170	9,170	5,870	3,300
Winter maintenance	17,585	21,585	21,369	216
Administration	17,932	17,932	16,160	1,772
TOTAL EXPENDITURES	145,457	149,457	115,418	34,039
REVENUES OVER (UNDER) EXPENDITURES	50,543	46,543	84,584	38,041
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(75,000)	(75,000)	(5,000)	70,000
NET CHANGE IN FUND BALANCES	(24,457)	(28,457)	79,584	108,041
FUND BALANCE, BEGINNING OF YEAR	129,598	129,598	129,598	-
FUND BALANCE, END OF YEAR	\$ 105,141	\$ 101,141	\$ 209,182	\$ 108,041

CITY OF ROCKFORD

**LOCAL STREETS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Intergovernmental revenue:				
State	\$ 80,000	\$ 80,000	\$ 79,034	\$ (966)
Interest and rentals	650	650	866	216
TOTAL REVENUES	80,650	80,650	79,900	(750)
EXPENDITURES				
Highways and Streets:				
Construction	75,300	75,300	61,063	14,237
Routine maintenance	51,070	51,070	41,766	9,304
Traffic control	4,420	4,420	1,439	2,981
Winter maintenance	25,460	28,460	28,151	309
Administration	18,217	18,217	16,168	2,049
TOTAL EXPENDITURES	174,467	177,467	148,587	28,880
REVENUES OVER (UNDER) EXPENDITURES	(93,817)	(96,817)	(68,687)	28,130
OTHER FINANCING SOURCES (USES)				
Transfers in	87,000	87,000	17,000	(70,000)
Transfers (out)	(5,000)	(5,000)	(5,000)	-
OTHER FINANCING SOURCES (USES)	82,000	82,000	12,000	(70,000)
NET CHANGE IN FUND BALANCES	(11,817)	(14,817)	(56,687)	(41,870)
FUND BALANCE, BEGINNING OF YEAR	109,781	109,781	109,781	-
FUND BALANCE, END OF YEAR	\$ 97,964	\$ 94,964	\$ 53,094	\$ (41,870)

CITY OF ROCKFORD

**BUDGET STABILIZATION SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Interest	\$ 1,000	\$ 1,000	\$ 2,197	\$ 1,197
OTHER FINANCING USES				
Transfers (out)	(1,000)	(1,000)	(2,197)	(1,197)
NET CHANGE IN FUND BALANCES	-	-	-	-
FUND BALANCE, BEGINNING OF YEAR	116,947	116,947	116,947	-
FUND BALANCE, END OF YEAR	\$ 116,947	\$ 116,947	\$ 116,947	\$ -

CITY OF ROCKFORD

**LIBRARY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Interest and rentals	\$ 500	\$ 500	\$ 1,218	\$ 718
Kent District Library	8,555	8,555	8,555	-
Other	100	100	966	866
TOTAL REVENUES	9,155	9,155	10,739	1,584
EXPENDITURES				
Recreation and Cultural:				
Personnel services	11,928	11,928	12,950	(1,022)
Operating supplies	1,125	1,125	818	307
Professional services	5,550	5,550	4,695	855
Insurance and bonds	126	126	167	(41)
Utilities	13,200	13,200	11,504	1,696
Miscellaneous	1,150	1,150	1,386	(236)
TOTAL EXPENDITURES	33,079	33,079	31,520	1,559
REVENUES OVER (UNDER) EXPENDITURES	(23,924)	(23,924)	(20,781)	3,143
OTHER FINANCING SOURCES (USES)				
Transfers in	23,924	23,924	23,924	-
NET CHANGE IN FUND BALANCES	-	-	3,143	3,143
FUND BALANCE, BEGINNING OF YEAR	56,906	56,906	56,906	-
FUND BALANCE, END OF YEAR	\$ 56,906	\$ 56,906	\$ 60,049	\$ 3,143

CITY OF ROCKFORD

**FIDUCIARY FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2005

	AGENCY FUNDS			
	ARTS COMMISSION	TRUST AND AGENCY	IMPREST PAYROLL	TOTAL
ASSETS				
Cash and temporary investments	\$ 48,418	\$ 12,395	\$ 57,243	\$ 118,056
Interest receivable	108	40	130	278
TOTAL ASSETS	<u>\$ 48,526</u>	<u>\$ 12,435</u>	<u>\$ 57,373</u>	<u>\$ 118,334</u>
LIABILITIES				
Payroll taxes and withholdings	\$ -	\$ -	\$ 57,373	\$ 57,373
Due to other governmental units	-	12,435	-	12,435
Due to other entites	48,526	-	-	48,526
TOTAL LIABILITIES	<u>\$ 48,526</u>	<u>\$ 12,435</u>	<u>\$ 57,373</u>	<u>\$ 118,334</u>

CITY OF ROCKFORD

**ALL AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**

JUNE 30, 2005

	BALANCE JULY 1, 2004		ADDITIONS		DEDUCTIONS		BALANCE JUNE 30, 2005	
<u>ARTS COMMISSION FUND - 792</u>								
ASSETS								
Cash and temporary investments	\$	32,883	\$	45,423	\$	29,888	\$	48,418
Interest receivable		-		108		-		108
Total assets	\$	32,883	\$	45,531	\$	29,888	\$	48,526
LIABILITIES								
Due to other entities	\$	32,883	\$	29,888	\$	45,532	\$	48,526
<u>TRUST AND AGENCY - 703</u>								
ASSETS								
Cash and temporary investments	\$	(672)	\$	9,631,434	\$	9,618,367	\$	12,395
Interest receivable		-		40		-		40
Total assets	\$	(672)	\$	9,631,474	\$	9,618,367.00	\$	12,435
LIABILITIES								
Due to other governmental units	\$	(672)	\$	16,892,726	\$	16,905,833	\$	12,435
<u>IMPREST PAYROLL FUND - 750</u>								
ASSETS								
Cash and temporary investments	\$	47,647	\$	2,082,133	\$	2,072,537	\$	57,243
Interest receivable		-		130		-		130
Total assets	\$	47,647	\$	2,082,263	\$	2,072,537	\$	57,373
LIABILITIES								
Payroll taxes and withholding	\$	47,647	\$	2,454,659	\$	2,464,385	\$	57,373
<u>TOTALS - ALL AGENCY FUNDS</u>								
ASSETS								
Cash and temporary investments	\$	79,858	\$	11,758,990	\$	11,720,792	\$	118,056
Interest receivable		-		278		-		278
TOTAL ASSETS	\$	79,858	\$	11,759,268	\$	11,720,792	\$	118,334
LIABILITIES								
Payroll taxes and withholdings	\$	47,647	\$	2,454,659	\$	2,464,385	\$	57,373
Due to other governmental units		(672)		16,892,726		16,905,833		12,435
Due to other entities		32,883		29,888		45,532		48,526
TOTAL LIABILITIES	\$	79,858	\$	19,377,273	\$	19,415,750	\$	118,334

CITY OF ROCKFORD

DOWNTOWN DEVELOPMENT AUTHORITY BALANCE SHEET / STATEMENT OF NET ASSETS

JUNE 30, 2005

	OPERATING FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
<u>ASSETS</u>			
Cash and temporary investments	\$ 37,848	\$ -	\$ 37,848
Receivable			
Accounts	745	-	745
Interest	84	-	84
Capital assets	-	1,276,102	1,276,102
<u>TOTAL ASSETS</u>	<u>\$ 38,677</u>	<u>1,276,102</u>	<u>1,314,779</u>
 <u>LIABILITIES AND FUND EQUITY/NET ASSETS</u>			
LIABILITIES			
Other accrued liabilities	\$ -	13,433	13,433
General obligation debt payable	-	620,000	620,000
	-	633,433	633,433
FUND EQUITY			
Fund balance			
Unreserved - undesignated	38,677	(38,677)	-
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$ 38,677</u>	<u>594,756</u>	<u>633,433</u>
NET ASSETS			
Invested in capital assets net of related debt			656,102
Unrestricted			25,244
<u>TOTAL NET ASSETS</u>		<u>\$ 633,433</u>	<u>\$ 681,346</u>

CITY OF ROCKFORD

DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES AND REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 2005

	OPERATING FUND	ADJUSTMENTS	STATEMENT OF ACTIVITIES
REVENUES			
Taxes	\$ 117,941	\$ -	\$ 117,941
Interest and rentals	1,176	-	1,176
Other	15,000	-	15,000
TOTAL REVENUES	134,117	-	134,117
EXPENDITURES/EXPENSES			
General government	15,068	30,472	45,540
Capital outlay	21,363	-	21,363
Debt service:			
Principal	55,000	(55,000)	-
Interest and fiscal charges	35,288	-	35,288
TOTAL EXPENDITURES/EXPENSES	126,719	(24,528)	102,191
REVENUES OVER (UNDER) EXPENDITURES	7,398	(7,398)	-
CHANGES IN NET ASSETS	-	31,926	31,926
FUND BALANCES/NET ASSETS, BEGINNING OF YEAR	31,279		649,420
FUND BALANCES/NET ASSETS, END OF YEAR	\$ 38,677		\$ 681,346

CITY OF ROCKFORD
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2005

	INTEREST RATES	INTEREST DATES	ISSUE DATE	FINAL MATURITY	OBLIGATIONS			PRINCIPAL PAYMENTS		
				DATE	ISSUED	RETIRED	OUTSTANDING	DATE	AMOUNT	
GENERAL OBLIGATION DEBT										
Transportation Fund Bonds, Series 1999	5.05%	8/1-2/1		8/1/14	\$ 995,000	\$ 250,000	\$ 740,000	8/1/05	\$ 60,000	
								8/1/06	60,000	
								8/1/07	65,000	
								8/1/08	70,000	
								8/1/09	70,000	
								8/1/10	75,000	
								8/1/11	80,000	
								8/1/12	85,000	
								8/1/13	85,000	
								8/1/14	90,000	
								740,000		
Installment Note	3.19%	10/1- 4/1	5/15/2003	10/1/2009	240,000	64,240	175,760	10/1/05	33,183	
								10/1/06	34,250	
								10/1/07	35,352	
								10/1/08	36,488	
								10/1/09	36,486	
								175,760		
Accrued Employee Benefits									189,540	
TOTAL GENERAL OBLIGATION DEBT										1,105,300
COMPONENT UNIT DEBT										
Limited Tax Development Bonds Series 1997	5-5.25%	2/1- 8/1	11/1/97	2/1/2013	900,000	280,000	620,000	2/1/06	60,000	
								2/1/07	65,000	
								2/1/08	70,000	
								2/1/09	75,000	
								2/1/10	80,000	
								2/1/11	85,000	
								2/1/12	90,000	
								2/1/13	95,000	
TOTAL COMPONENT UNIT DEBT										620,000

(Continued)

CITY OF ROCKFORD

SCHEDULE OF INDEBTEDNESS (CONTINUED)

JUNE 30, 2005

ENTERPRISE FUNDS	INTEREST RATES	INTEREST DATES	ISSUE DATE	FINAL	OBLIGATIONS			PRINCIPAL PAYMENTS	
				MATURITY DATE	ISSUED	RETIRED	OUTSTANDING	DATE	AMOUNT
	Water Construction Revenue Bonds	7.5 - 12%	5/1- 11/1	5/1/86	5/1/2006	\$ 450,000	\$ 405,000	\$ 45,000	5/1/06
									45,000
Water Supply System Revenue Bonds	6 - 9.96%	5/1- 11/1	5/1/90	5/1/2009	785,000	560,000	225,000	5/1/06	50,000
								5/1/07	55,000
								5/1/08	60,000
								5/1/09	60,000
									225,000
Water Supply System Revenue Bonds	5.25-7.0%	2/1- 8/1	12/1/97	5/1/2013	680,000	120,000	560,000	5/1/06	35,000
								5/1/07	75,000
								5/1/08	75,000
								5/1/09	75,000
								5/1/10	75,000
								5/1/11	75,000
								5/1/12	75,000
								5/1/13	75,000
									560,000
Drinking Water Revolving Fund Bonds	2.5%	4/1- 10/1	8/25/98	10/1/09	2,040,000	215,000	1,825,000	10/1/05	110,000
								10/1/06	115,000
								10/1/07	115,000
								10/1/08	120,000
								10/1/09	120,000
								10/1/10	125,000
								10/1/11	130,000
								10/1/12	130,000
								10/1/13	135,000
								10/1/14	140,000
								10/1/15	140,000
								10/1/16	145,000
								10/1/17	150,000
								10/1/18	150,000
									1,825,000

(Continued)

CITY OF ROCKFORD

SCHEDULE OF INDEBTEDNESS (CONTINUED)

JUNE 30, 2005

	INTEREST RATES	INTEREST DATES	ISSUE DATE	FINAL MATURITY DATE	OBLIGATIONS			PRINCIPAL PAYMENTS	
					ISSUED	RETIRED	OUTSTANDING	DATE	AMOUNT
Local Government Loan Program Revenue									
Refunding Bonds, Series 2002B	2 - 3.625%	11/1 - 5/1	11/1/2002	5/1/2013	\$ 1,680,000	\$385,000	\$ 1,295,000	5/1/2006	\$ 145,000
								5/1/2007	145,000
								5/1/2008	150,000
								5/1/2009	155,000
								5/1/2010	165,000
								5/1/2011	170,000
								5/1/2012	180,000
								5/1/2013	185,000
									<u>1,295,000</u>
Capital Improvement Bonds, Series 2003	4 - 4.050%	10/1 - 4/1	4/24/2003	10/1/2023	545,000	20,000	525,000	10/1/2005	20,000
								10/1/2006	20,000
								10/1/2007	20,000
								10/1/2008	20,000
								10/1/2009	20,000
								10/1/2010	25,000
								10/1/2011	25,000
								10/1/2012	25,000
								10/1/2013	25,000
								10/1/2014	25,000
								10/1/2015	25,000
								10/1/2016	30,000
								10/1/2017	30,000
								10/1/2018	30,000
								10/1/2019	35,000
								10/1/2020	35,000
								10/1/2021	35,000
								10/1/2022	40,000
								10/1/2023	40,000
									<u>525,000</u>
TOTAL ENTERPRISE FUNDS									<u>4,475,000</u>
TOTAL LONG-TERM OBLIGATIONS - REPORTING ENTITY									<u>\$6,200,300</u>
									(Concluded)



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

July 28, 2005

Honorable Mayor and
Members of the City Council
Rockford, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rockford, Michigan, as of and for the year ended June 30, 2005, and have issued our report thereon dated July 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rockford, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rockford, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Continuing Disclosure Filing

City of Rockford, Michigan

*Fiscal Year Ended
June 30, 2005*

LIST OF CURRENT
NATIONALLY RECOGNIZED MUNICIPAL SECURITIES
INFORMATION REPOSITORIES (NRMSIRs)

Standard & Poor's J.J. Kenny Repository
55 Water Street – 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975

Bloomberg Municipal Repositories
P.O. Box 840
Princeton, NJ 08542-0840
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

FT Interactive Data
Attn: NRMSIR
100 Williams Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market)
Fax: (212) 771-7391 (Primary Market)
E-mail: Nrmsir@FTID.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

STATE INFORMATION REPOSITORY

Municipal Advisory Council of Michigan
1445 First National Building
Detroit, Michigan 48226-3517
Phone: 313-963-0420
Fax: 313-963-0943

MUNICIPAL SECONDARY MARKET DISCLOSURE
INFORMATION COVER SHEET

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository pursuant to Securities and Exchange Commission Rule 15c2-12.

Issuer's and/or Other Obligated Person's Name: City of Rockford, Michigan

CUSIP Numbers (attach additional sheet if necessary):

- ☐ Nine-digit number(s) to which the information relates:
☒ Information relates to **all securities** issued by the issuer having the following six-digit number(s): 660294

* * *

Number of pages of attached information: _____

Description of Material Event Notice / Financial Information (Check One):

1. _____ Principal and interest payment delinquencies
2. _____ Non-Payment related defaults
3. _____ Unscheduled draws on debt service reserves reflecting financial difficulties
4. _____ Unscheduled draws on credit enhancements reflecting financial difficulties
5. _____ Substitution of credit or liquidity providers, or their failure to perform
6. _____ Adverse tax opinions or events affecting the tax-exempt status of the security
7. _____ Modifications to rights of securities holders
8. _____ Bond calls
9. _____ Defeasances
10. _____ Release, substitution, or sale of property securing repayment of the securities
11. _____ Rating changes
12. _____ Failure to provide annual financial information.
13. _____ Other material event notice (specify)
14. X Financial information*: Please check all appropriate boxes:

- ☐ CAFR: (a) ☐ includes ☐ does not include Annual Financial Information
(b) Audited? Yes ☐ No ☐

☒ Annual Financial Information: Audited? Yes ☒ No ☐

☒ Operating Data

Fiscal Period Covered: July 1, 2004 – June 30, 2005

*Financial information **should not** be filed with the MSRB

* * *

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: _____

Name: Jeff Dood Title: Finance Director

Employer: City of Rockford, Michigan

Address: 7 South Monroe Street

City, State, Zip Code: Rockford, Michigan 49341-0561

Voice Telephone Number: 616-866-1537

City of Rockford
Taxable Value
Fiscal Years Ended or Ending June 30, 2002 Through 2006

Assessed Value as of <u>December 31</u>	Year of State Equalization and Tax Levy	City's Fiscal Years Ended or Ending <u>June 30</u>	Ad Valorem Taxable <u>Value</u>	Equivalent Taxable Value of Property Granted Tax Abatement Under Acts 198 And 255 (1)	Total Taxable <u>Value</u>	Percent Increase Over Prior <u>Year</u>
2000	2001	2002	\$145,455,264	\$7,419,750	\$152,875,014	10.16
2001	2002	2003	159,238,724	10,018,812	169,257,536	10.72
2002	2003	2004	168,508,212	9,616,439	178,124,651	5.24
2003	2004	2005	177,999,909	8,975,095	186,975,004	4.97
2004	2005	2006	192,770,253	8,734,017	201,504,270	7.78
Per Capita Total Taxable Value for the Fiscal Year Ending June 30, 2006 (2)						\$43,559.07

(1) At the full tax rate. See "CITY TAXATION AND LIMITATIONS – Tax Abatement" herein.

(2) Based on the City's 2000 census population of 4,626.

Source: City of Rockford

City of Rockford
Total Taxable Value by Use and Class
Fiscal Years Ended or Ending June 30, 2002 Through 2006

	Fiscal Years Ended or Ending June 30				
<u>Use</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Agriculture.....	\$ 106,426	\$ 109,753	\$ 94,146	\$ 95,537	\$ 95,537
Commercial	32,433,048	37,674,755	41,652,483	41,868,503	40,952,383
Industrial.....	37,657,060	40,267,283	38,189,128	38,312,795	41,249,998
Residential.....	80,496,080	88,929,445	95,893,194	103,940,259	116,376,071
Utility.....	2,182,400	2,276,300	2,295,700	2,757,910	2,830,281
	<u>\$ 152,875,014</u>	<u>\$ 169,257,536</u>	<u>\$ 178,124,651</u>	<u>\$ 186,975,004</u>	<u>\$ 201,504,270</u>
<u>Class</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Real Property.....	\$ 124,847,264	\$ 138,581,586	\$ 148,421,251	\$ 158,548,344	\$ 171,042,795
Personal Property	28,027,750	30,675,950	29,703,400	28,426,660	30,461,475
	<u>\$ 152,875,014</u>	<u>\$ 169,257,536</u>	<u>\$ 178,124,651</u>	<u>\$ 186,975,004</u>	<u>\$ 201,504,270</u>

Source: City of Rockford

City of Rockford
State Equalized Valuation
Fiscal Years Ended or Ending June 30, 2002 Through 2006

Assessed Value as of <u>December 31</u>	Year of State Equalization and Tax Levy	City's Fiscal Years Ended or Ending <u>June 30</u>	Ad Valorem SEV	SEV of Property Granted Tax Abatement Under Acts 198 and 255 (1)	Total SEV	Percent Increase Over Prior Year
2000	2001	2002	\$159,498,700	\$15,056,400	\$174,555,100	8.94%
2001	2002	2003	173,380,800	20,142,500	193,523,300	10.87
2002	2003	2004	185,981,800	19,392,100	205,373,900	6.12
2003	2004	2005	197,713,200	18,748,400	216,461,600	5.40
2004	2005	2006	216,397,100	18,215,700	234,612,800	8.39
Per Capita Total SEV for the Fiscal Year Ending June 30, 2006 (2)						\$50,716.13

(1) See "CITY TAXATION AND LIMITATIONS – Tax Abatement", herein.

(2) Based on the City's 2000 census population of 4,626.

Source: City of Rockford

City of Rockford
Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2002 Through 2006

	Fiscal Years Ended or Ending June 30				
<u>Use</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Agriculture	\$ 107,500	\$ 115,000	\$ 98,600	\$ 98,600	\$ 98,600
Commercial	35,274,000	40,503,100	44,611,200	45,156,700	45,277,800
Industrial	48,468,800	53,482,100	51,374,300	52,160,600	54,899,600
Residential.....	88,522,400	97,146,800	106,994,100	116,147,500	131,414,100
Utility	2,182,400	2,276,300	2,295,700	2,898,200	2,922,700
	<u>\$ 174,555,100</u>	<u>\$ 193,523,300</u>	<u>\$ 205,373,900</u>	<u>\$ 216,461,600</u>	<u>\$ 234,612,800</u>
<u>Class</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Real Property.....	\$ 144,496,300	\$ 158,841,000	\$ 172,181,200	\$ 185,053,300	\$ 201,599,000
Personal Property	30,058,800	34,682,300	33,192,700	31,408,300	33,013,800
	<u>\$ 174,555,100</u>	<u>\$ 193,523,300</u>	<u>\$ 205,373,900</u>	<u>\$ 216,461,600</u>	<u>\$ 234,612,800</u>

Source: City of Rockford

Tax Abatement

The City's Taxable Value does not include the value of certain facilities which have temporarily been removed from the Ad Valorem Tax Roll pursuant to Act 198 or Act 255 (the "Acts"). The Acts were designed to provide a stimulus in the form of significant tax incentives to industry and commercial enterprises to renovate and expand aging facilities ("Rehab Properties") and to build new facilities ("New Properties"). Except as indicated below, under the provisions of the Acts, a local governmental unit (i.e., a city, village or township) may establish plant rehabilitation districts, industrial development districts, and commercial redevelopment districts and offer industrial and commercial firms certain property tax incentives or abatements to encourage restoration or replacement of obsolete facilities and to attract new facilities to the area.

An industrial or commercial facilities exemption certificate granted under either of the Acts entitles an eligible facility to exemption from Ad Valorem Taxes for a period of up to 12 years. In lieu of Ad Valorem Taxes, the eligible facility will pay an industrial facilities or commercial facilities tax (the "IFT Tax" and "CFT Tax", respectively). For properties granted tax abatement under Act 198 or Act 255 there exists separate tax rolls referred to as the industrial facilities tax roll (the "IFT Tax Roll") and the commercial facilities tax roll (the "CFT Tax Roll"), respectively. The IFT or CFT Tax for an obsolete facility which is being restored or replaced is determined in exactly the same manner as the Ad Valorem Tax; the important difference being that the value of the property remains at the Taxable Value level prior to the improvements even though the restoration or replacement substantially increases the value of the facility. For a new facility the IFT or CFT Tax is also determined the same as the Ad Valorem Tax but instead of using the total mills levied as Ad Valorem Taxes, a lower millage rate is applied. For abatements granted prior to 1994, this millage rate equals 1/2 of all tax rates levied by other than the state and local school district for operating purposes plus 1/2 of the 1993 rate levied by the local school district for operating purposes. For abatements granted after 1994, this millage rate equals 1/2 of all tax rates levied by other than the State plus none, 1/2 or all of the State tax rate (as determined by the State Treasurer). Act 255 expired as an effective statute of the State on December 31, 1986 and tax abatements granted to commercial facilities under Act 255 prior to December 31, 1986 have expired.

The City has established goals, objectives and procedures to provide the opportunity for industrial and commercial development and expansion. Since 1974, the City has approved a number of applications for local property tax relief for industrial and commercial firms. Most abatements have been for new industrial facilities. The SEV of properties which have been granted tax abatement under the Acts, removed from the Ad Valorem Tax Roll and placed on the IFT Tax Rolls totaled \$18,215,700 for the fiscal year ending June 30, 2006. The IFT Taxes paid on these properties is equivalent to Ad Valorem Taxes paid on \$8,734,017 of Taxable Value at the full tax rate (the "Equivalent Taxable Value"). Upon expiration of the industrial or commercial facilities exemption certificates the current equalized valuation of the abated properties will return to the Ad Valorem Tax Roll as Taxable Value.

City of Rockford
Maximum Property Tax Rates
Fiscal Year Ending June 30, 2006

<u>Millage Classification</u>	<u>Millage Authorized</u>	<u>Applicable Millage Reduction Fraction (1)</u>	<u>Maximum Allowable Millage</u>
Operating.....	16.0000	0.8769	14.0311

(1) Cumulative.
Source: City of Rockford

City of Rockford
Property Tax Rates
Fiscal Years Ended or Ending June 30, 2002 Through 2006

<u>Levy July 1</u>	<u>Fiscal Year Ended or Ending June 30</u>	<u>Operating</u>
2001	2002	10.9000
2002	2003	10.9000
2003	2004	10.9000
2004	2005	10.9000
2005	2006	10.9000

Source: City of Rockford

City of Rockford
Property Tax Collections
Fiscal Years Ended or Ending June 30, 2002 Through 2006

<u>July 1 Levy</u>	<u>Fiscal Years Ended or Ending June 30</u>	<u>Tax Levy(1)</u>	<u>Collections to March 1 Following Levy</u>	<u>Percent Collected</u>
2001	2002	\$1,585,000	\$ 1,576,114	99.44 %
2002	2003	1,735,702	1,726,502	99.47
2003	2004	1,836,739	1,829,131	99.59
2004	2005	1,926,000	1,925,341	99.96
2005	2006	2,080,000	(In Process of Collecting)	

(1) City taxes only. Does not include taxes on properties granted tax abatement under Acts 198 and 255.
Source: City of Rockford

**City of Rockford
Ten Largest Taxpayers
Fiscal Year Ending June 30, 2006**

<u>Taxpayer</u>	<u>Principal Product or Service</u>	<u>Taxable Value (1)</u>	<u>Percent of Total (2)</u>
Wolverine World Wide, Inc.	Industrial Mfg - Shoes	\$20,122,645	9.99 %
ITW / AIM.....	Industrial Mfg - Furniture.....	4,014,850	1.99
Grinwood / Champion.....	Health Club / Med Office & Retail	4,677,443	2.32
Jade Pig.....	Shopping Center.....	3,793,400	1.88
Byrne Electrical Spec..	Industrial Mfg – Wire Harness	3,190,269	1.58
Pulte Land Company LLC.....	New Home Development	2,473,767	1.23
Rogue Ridge / Holwerda.....	Apartments / New Homes.....	2,423,967	1.20
Marcell Ridge/Koetje Investments...	Apartments	2,389,800	1.20
Kalfact Plastics	Industrial MFG / Injection Molding	2,347,755	1.17
Advanced Fabricating.....	Industrial Mfg – Injection Molding.....	1,029,550	0.51
		<u>\$ 46,463,444</u>	<u>23.06 %</u>

(1) Includes the Equivalent Taxable Value of property granted tax abatement under Act 198.

(2) Based on \$201,504,270 which is the City's Total Taxable Value for its fiscal year ending June 30, 2006. Includes the Equivalent Taxable Value of property granted tax abatement under Act 198.

Source: City of Rockford

Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of November 2, 2005.

Debt Limit (1)		\$23,461,280
Debt Outstanding (2)	\$11,141,556	
Less: Exempt Debt.....	<u>9,840,760</u>	<u>1,300,796</u>
Legal Debt Margin.....		<u>\$22,160,484</u>

(1) 10% of \$234,612,800 which is the City's Total SEV for the fiscal year ending June 30, 2006. Includes the SEV of property granted tax abatement under Act 198.

(2) Includes the City's portion of the 2005 North Kent Sewer Authority bond issue.

Source: Municipal Advisory Council of Michigan and the City of Rockford

Debt Statement

The following table reflects a breakdown of the City's direct and overlapping debt as of November 2, 2005 including the City's portion of the Bonds described herein. Direct debt which is shown as self-supporting is paid from sources other than the City's General Fund.

The City's ability to levy a tax to pay the debt service on the bonds which are designated as "Limited Tax", is subject to applicable charter, statutory and constitutional limitations. See "CITY TAXATION AND LIMITATION" herein.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self-Supporting</u>	<u>Net</u>
Share of North Kent Sewer Authority Bonds:			
Dated December __, 2005 (Limited Tax) (1) ..	\$ 943,500	\$ 943,500	\$ -0-
Dated May 2, 2002 (Limited Tax) (2)	675,072	675,072	-0-
Dated September 12, 2001 (Limited Tax) (3)...	1,153,427	1,153,427	-0-
Dated April 1, 2000 (Limited Tax) (4)	1,733,793	1,733,793	-0-
Dated June 1, 1998 (Limited Tax) (5)	<u>704,968</u>	<u>704,986</u>	<u>-0-</u>
Subtotal.....	<u>\$ 5,210,760</u>	<u>\$ 5,210,760</u>	<u>\$ -0-</u>
General Obligation Bonds:			
Dated April 1, 2003 (Limited Tax)	<u>\$ 505,000</u>	<u>\$ -0-</u>	<u>\$ 505,000</u>
Subtotal.....	<u>\$ 505,000</u>	<u>\$ -0-</u>	<u>\$ 505,000</u>
Downtown Development Authority Bonds:			
Dated November 1, 1997 (Limited Tax)	<u>\$ 620,000</u>	<u>\$ 620,000</u>	<u>\$ -0-</u>
Subtotal.....	<u>\$ 620,000</u>	<u>\$ 620,000</u>	<u>\$ -0-</u>
Michigan Transportation Fund:			
Dated August 1, 1999 (Limited Tax)	<u>\$ 680,000</u>	<u>\$ 680,000</u>	<u>\$ -0-</u>
Subtotal.....	<u>\$ 680,000</u>	<u>\$ 680,000</u>	<u>\$ -0-</u>
Water Revenue Bonds:			
Dated September 29, 1998 (Limited Tax)	\$ 1,825,000	\$ 1,825,000	\$ -0-
Dated December 1, 1997	560,000	560,000	-0-
Dated May 1, 1990	225,000	225,000	-0-
Dated May 1, 1986	<u>45,000</u>	<u>45,000</u>	<u>-0-</u>
Subtotal.....	<u>\$ 2,655,000</u>	<u>\$ 2,655,000</u>	<u>\$ -0-</u>

Sewer Revenue Bonds:

Dated November 1, 2002	\$ 1,295,000	\$ 1,295,000	\$ -0-
Subtotal.....	\$ 1,295,000	\$ 1,295,000	\$ -0-

Installment Purchase Obligations:

Dated November 1, 2002	\$ 175,796	\$ -0-	\$ 175,796
Subtotal.....	\$ 175,796	\$ -0-	\$ 175,796

Total	\$ 11,141,556	\$ 10,460,760	\$ 680,796
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Per Capita Net City Direct Debt (6)	\$147.17
Percent of Net Direct Debt to Total SEV (7).....	0.29%

<u>Overlapping Debt (8)</u>	<u>Gross</u>	<u>City Share As Percent of Gross</u>	<u>Net</u>
Kent County.....	\$ 84,960,000	1.00%	\$ 849,600
Grand Rapids Community College.....	57,460,000	0.97	557,362
Rockford School District.....	107,070,096	14.24	15,246,782
Totals.....			<u>\$16,653,744</u>

Per Capita Net Overlapping Debt (6)	\$3,600.03
Percent of Net Overlapping Debt to Total SEV (7).....	7.10%

Per Capita Net Direct and Overlapping Debt (6).....	\$3,747.20
Percent of Net Direct and Overlapping Debt to Total SEV (7)	7.39%

- (1) Represents Rockford's portion of the 2005 North Kent Sewer Authority bond issue.
- (2) Represents Rockford's portion of the North Kent Sewer Authority Bonds dated May 2, 2002.
- (3) Represents Rockford's portion of the North Kent Sewer Authority Bonds dated September 12, 2001.
- (4) Represents Rockford's portion of the North Kent Sewer Authority Bonds dated April 12, 2000.
- (5) Represents Rockford's of the North Kent Sewer Authority Bonds dated June 1, 1998.
- (6) Based on the City's 2000 census population of 4,626.
- (7) Based on \$234,612,800 which is the City's Total SEV for the fiscal year ending June 30, 2006. Includes the SEV of property granted tax abatement under Act 198.
- (8) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.

Source: Municipal Advisory Council of Michigan and the City of Rockford

Schedule of Bond Maturities (1)

The following table sets forth the annual maturities of the City's bonded indebtedness by type of issue as of November 2, 2005.

Fiscal Years Ending <u>June 30</u>	Downtown Development <u>Authority Bonds</u>	Michigan Transportation <u>Fund</u>	Water Revenue <u>Bonds</u>	General Obligation <u>Bonds</u>	Sewer Revenue <u>Bonds</u>
2006	\$ 60,000	\$ -0-	\$ 240,000	\$ -0-	\$ 145,000
2007	65,000	60,000	245,000	20,000	145,000
2008	70,000	65,000	250,000	20,000	150,000
2009	75,000	70,000	255,000	20,000	155,000
2010	80,000	70,000	195,000	20,000	165,000
2011	85,000	75,000	200,000	25,000	170,000
2012	90,000	80,000	205,000	25,000	180,000
2013	95,000	85,000	205,000	25,000	185,000
2014	-0-	85,000	135,000	25,000	-0-
2015	-0-	90,000	140,000	25,000	-0-
2016	-0-	-0-	140,000	25,000	-0-
2017	-0-	-0-	145,000	30,000	-0-
2018	-0-	-0-	150,000	30,000	-0-
2019	-0-	-0-	150,000	30,000	-0-
2020	-0-	-0-	-0-	35,000	-0-
2021	-0-	-0-	-0-	35,000	-0-
2022	-0-	-0-	-0-	35,000	-0-
2023	-0-	-0-	-0-	40,000	-0-
2024	-0-	-0-	-0-	40,000	-0-
	<u>\$ 620,000</u>	<u>\$ 680,000</u>	<u>\$ 2,655,000</u>	<u>\$ 505,000</u>	<u>\$ 1,295,000</u>

(1) Does not include the Bonds described herein or other outstanding bonds issued by the Authority since the portion of the principal paid by the City will vary with the proportionate usage of the Project by the City.

Source: Municipal Advisory Council of Michigan and the City of Rockford



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

July 28, 2005

Honorable Mayor and Members
of the City Council
City of Rockford, Michigan

We have audited the financial statements of the City of Rockford for the year ended June 30, 2005, and have issued our report thereon dated July 30, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated July 28, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Rockford. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Rockford's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Rockford are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2005. We noted no transactions entered into by the City of Rockford during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the City Council and management of the City of Rockford and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Johnson". The signature is written in dark ink and is positioned to the right of the "Very truly yours," text.